

MANAGEMENT MEMO

SUBJECT: COST SYSTEMS	NUMBER: 96-14
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REFERENCES: SAM SECTIONS 8752 AND 8752.1	ISSUING AGENCY: DEPARTMENT OF FINANCE

In keeping with the intent of the Governor's recent *Competitive Government, A Plan for Less Bureaucracy, More Results*, departments should consider the costs and benefits of adopting and maintaining a cost system that will facilitate a cost analysis of departmental activities. This information may be used to allow a comparative analysis to others who perform similar activities, as well as allow departments to evaluate the cost effectiveness of their own activities.

A department which provides goods or services to others is required to recover full costs (the department's direct and indirect costs and the central service costs), as provided for in the State Administrative Manual Sections 8752 and 8752.1. These same costs need to be included when determining the total costs of an activity.

To allow appropriate and beneficial cost comparisons, the activities selected for cost analyses should be those for which similar or like activities are performed by others. It is recommended that, when feasible, a department perform the cost analysis based on a sampling of each of the department's activities rather than a complete analyses of all activities. It is intended that the benefit of a cost system will outweigh the cost of that system.

The adoption and maintenance of cost systems and the preparation of cost analyses are to be accomplished within departments' existing resources.

The California State Accounting and Reporting System (CALSTARS) contains various account structures and tables that can be used individually or in combination to capture activity based costs and data (see Attachment I). A department using CALSTARS will need to first identify and then use appropriate activity account coding structures to meet their individual costing requirements.

CALSTARS can provide assistance to departments to develop strategies to account for the cost of an activity and to build the necessary tables to capture and report the activity data. Those CALSTARS departments needing assistance can contact Glen Wayne Cole at (916) 445-0211, extension 46, or (ATSS) 485-0211.

If you have any questions concerning this Management Memo, contact the Department of Finance, Fiscal Systems and Consulting Unit, at (916) 324-0385 or (ATSS) 454-0385.



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Attachments
mgmtmemo\costs.doc

CALSTARS was developed to provide the State with an automated organization and program cost accounting system for all revenue, expenditures, receipts, disbursements, and property of the State. As such, it contains various account structures and tables that can be used individually or in combination to capture activity based costs and data. Some of the structures available in CALSTARS include:

- Program Cost Account (PCA Code) captures expenditure data programmatically based on the activity performed by the department. There are six different levels to capture data within a hierarchical program structure. One of these levels can be used to identify activities.
- In addition, the PCA Activity code is part of a costing structure that can be used to track activities within and/or across program (PCA) lines. By using the automated timesheet capabilities of CALSTARS, currently available reports will identify the hours spent on these activities. Additional reporting can be developed to calculate and track direct dollars spent on these activities. Also, modifications can be made to CALSTARS to allocate departmental indirect costs to these activities, if necessary.
- Organizational Account (Index Code) captures expenditures data based on the way staff resources are organized. There are six different levels to capture data in a hierarchical organization structure. One of these can be used to identify activities performed within an organizational unit(s).
- Line-item captures expenditure data by type of item or service being purchased. CALSTARS is capable of accounting to one additional level of line item detail below the level specified in the Uniforms Codes Manual.